

EXCO

R E S O U R C E S L T D



Exco Resources Limited

and controlled entities

ABN 99 080 339 671

Financial Report

30 June 2010

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Corporate Information

ABN 99 080 339 671

DIRECTORS

Barry Sullivan (Chairman)
Michael Anderson (Managing Director)
Alasdair Cooke (Executive Director)
Peter Reeve (Non-executive Director)
Craig Burton (Non-executive Director, Resigned 30 March 2010)

SECRETARY

Eamon Byrne

MANAGEMENT

Bruce McLarty (Commercial Manager)
Geoff Laing (Corporate & Project Development Manager)
Steve Konecny (Exploration Manager)
Christine Shore (Resource Manager)

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SOLICITORS

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West Perth Western Australia 6005

Blake Dawson
Level 32 Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

AUDITORS

KPMG
235 St George's Terrace
Perth Western Australia 6000

SHARE REGISTRY

Advanced Share Registry Services
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Directors' Report

The Directors present their report together with the financial report of Exco Resources Limited ("Exco") and the consolidated financial report of the Group comprising Exco Resources Limited ("the Company") and its controlled entities and interest in associates and jointly controlled entities for the financial year ended 30 June 2010 and the auditor's report thereon.

1. Directors

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

BARRY SULLIVAN, BSc(Min), ARSM, FAusIMM, MAICD

Chairman - Non-executive Director

Experience and expertise

Mr. Sullivan is an experienced mining engineer who has had a successful career in the mining industry, both in South Africa with Anglo American Ltd (1969-1974) and in Australia with Mount Isa Mines (MIM) from 1974 to 1995. He had six years as Executive General Manager at MIM, in which capacity Mr Sullivan was responsible for total operations including regional exploration, four underground mines and one open cut mine, power stations, dams and comprehensive support services. Director since 2005, member of the remuneration committee.

Other current directorships:

Non-executive director of Catalpa Resources Ltd since June 2008

Non-executive director of Lion Selection Ltd November 2008 – December 2009

Previous directorships:

Non-executive director of Allegiance Mining NL from March 2004 to July 2008

MICHAEL ANDERSON, BSc (Hons Mining Geology), PhD, ARSM

Managing Director

Experience and expertise

Mr. Anderson is a graduate of the Royal School of Mines with a PhD and Honours in Mining Geology. He has over 18 years experience in the southern African and Australian mining industries. His experience has been broad-based extending from exploration geology with Anglo American, through metallurgy and process development with Mintek, to the provision of multi-disciplinary engineering, procurement and construction management (EPCM) and project development services with engineering consultancy groups Bateman and Kellogg Brown & Root.

Prior to joining Exco Resources, Mr Anderson was Group Manager for Business Development with Gallery Gold Ltd where he was responsible for developing and implementing corporate strategy including project development activities in both Botswana and Tanzania. Director since 2006, member of the remuneration committee.

ALASDAIR COOKE, BSc (Hons Geology), MAIG

Executive Director

Experience and expertise

Mr. Cooke is one of the founders of Exco Resources and has over 21 years of experience in the resource exploration industry throughout Australia and internationally.

He is a qualified geologist and throughout his career, has been involved in mineral exploration and corporate development, including eight years spent with BHP Minerals Business Development Group and over ten years managing public resource companies.

Mr Cooke is a founding partner of the Mitchell River Group, which over the past nine years has established a number of successful resource companies, including ASX-listed Panoramic Resources Ltd (operating the Savannah and Lanfranchi Nickel Projects in Australia), ASX-listed Albidon Ltd (operating the Munali Nickel Project in Zambia), ASX-listed Mirabela Nickel Ltd (developing the Santa Rita Nickel Project in Brazil) and ASX-listed African Energy Resources Ltd (developing the Chirundu Uranium Project in Zambia). Director since 2001, member of the remuneration committee.

Other current directorships

Executive director of African Energy Resources Ltd since 2006

Executive director of Albidon Ltd since 2000

Executive director of Energy Ventures Ltd since 2007

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PETER REEVE, BSc (Metallurgy)

Non-executive Director

Experience and expertise

Mr. Reeve has a Bachelor of Science (Metallurgy) from RMIT University and has been involved in the Australian resources industry for approximately 26 years. His industry experience includes positions with Rio Tinto, Shell-Billiton and Normet Consulting (a metallurgical consulting firm) before joining Goldman Sachs/JBWere in investment management and corporate finance roles.

In 2001, Mr Reeve joined Newcrest Mining Ltd, as part of the Executive Committee responsible for corporate development and market related aspects for the group, a position that he occupied until 2006. He is currently Chief Executive Officer and Managing Director of Ivanhoe Australia Ltd (Exco's major shareholder). Director since 2008.

Other current directorships

Managing director of Ivanhoe Australia Ltd since 2007

Non-executive director of Emmerson Resources Ltd since 2009

CRAIG BURTON, LLB, BJuris

Non-executive Director (Resigned 30 March 2010)

Experience and expertise

Mr Burton has a Bachelor of Laws degree from the University of Western Australia and is a member of the Australian Institute of Company Directors. He is a corporate solicitor and an experienced and active investor in start-up projects and businesses, both publicly listed and private.

Over the last 18 years he has co-founded numerous development companies, with a focus on the resources, oil and gas, mining services and agribusiness sectors. He often takes on a commercial executive role to assist the early development of such companies. Director since 2002.

Other current directorships

Executive director of Mirabela Nickel Ltd since July 2004

Non-executive director of Wildhorse Energy Ltd since September 2006

Non-executive director of Matra Petroleum plc since February 2005

Non-executive director of Solimar Energy Ltd since December 2004

2. Company Secretary

Mr Eamon Byrne FCCA (UK), MNIA was appointed to the position of company secretary and chief financial officer on 1 September 2008. He is a qualified accountant with over 21 years experience in the mining and resources industry. Prior to joining Exco, Mr. Byrne worked for Albidon Ltd, Woodside Petroleum and WMC Resources Ltd on a range of Australian and international projects. His experience, prior to his involvement in the mining industry, includes retailing, manufacturing and distribution.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Remuneration Committee Meetings	
	A	B	A	B
Mr Barry Sullivan	8	8	2	2
Mr Alasdair Cooke	8	8	2	2
Mr Michael Anderson	8	8	2	2
Mr Peter Reeve	8	8		
Mr Craig Burton (resigned 30 March 2010)	1	6		

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

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Directors' Report

4. Corporate Governance Statement

4.1. Board of directors

Role of the Board

The primary role of the Board of directors is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for monitoring financial and other reporting.

Board processes

The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Group is engaged in exploration, evaluation and development of mining interests. The Group has transitioned from an explorer to a producer over the last year. The critical skills required by the Board in pursuing the Group's business plan at this relatively early stage of its development are expert geological, exploration and evaluation and project management skills together with strong fiscal management skills. In addition, each director is charged with having a thorough understanding of and responsibility for the protection of the rights of the Company and its shareholders.

The Board has these skills and as the Group's business plan progresses it will add new directors as and when complimentary skills are required.

The Board presently comprises two non-executive directors, an executive director and the Managing Director. At this time only one of the directors, Mr Barry Sullivan, is considered independent. Mr Reeve, is currently a director of a major shareholder, Mr Cooke is contracted to provide ongoing consulting work and Mr. Anderson is employed in a full time capacity. All the senior technical and financial personnel are highly qualified and have previously held roles of executive responsibility in much larger organisations.

The directors meet frequently, both formally and informally, to ensure a mutually thorough understanding of the Group's business and all the Group's policies of corporate governance are adhered to. The agenda for meetings is prepared by the Managing Director in conjunction with the Chairman and Company Secretary and is circulated in advance.

Director education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning the performance of directors. Directors are given access to, and encouraged to participate in, continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other board members.

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Independence

ASX Corporate Governance Council (ASXCGC) recommendation 2.1 requires a majority of the Board to be independent directors. The ASXCGC defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, only one of the board members, Mr Barry Sullivan, is considered to be independent.

ASXCGC recommendation 9 states that non-executive directors should not receive options or bonus payments. The Company has in the past awarded options and other securities to non-executive directors as it considers this to be a reasonable and appropriate method of assisting in attracting and retaining suitably skilled board members. There are however, no plans to award options or other securities in the immediate future.

4.2. Nomination committee

ASXCGC recommendation 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2010, the Company did not have a separate nomination committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee. The Board has reviewed its policy on nominations and incorporates below its summarised policy.

Factors considered for a new candidate include:

- The skills required for appointment to the Board;
- How differing skills are represented on the Board;
- Processes for the identification of suitable candidates for the Board;
- The time commitment required by a director to effectively discharge duties;
- The number of existing directorships and other commitments that the candidate may have;
- Assessment of the 'independence' of the candidate; and
- The extent to which the appointee is likely to work constructively with the existing directors and contribute to the overall effectiveness of the Board.

The following procedure is followed in selecting and appointing a new director:

- Utilise personal networks or external consultants to identify potential candidates;
- Assess appropriateness of candidate with consideration to the above points;
- Determine the terms, conditions, responsibilities and expectations of the new position;
- Non-executive directors should be appointed for specific terms subject to re-election and to the ASX Listing Rules and Corporations Act provisions concerning removal of a director;
- Ultimate decisions about who is elected to the Board are to be made by the shareholders; and
- Ensuring that the new Board member is inducted and that they have every opportunity to increase their knowledge about the company to ensure that they can participate in an effective manner to the Board deliberations.

4.3. Remuneration Committee

The remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other Group executives for the Group. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

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The members of the remuneration committee during the year were:

- Mr Barry Sullivan (Chairperson) – Independent Non-Executive
- Mr Michael Anderson – Executive
- Mr Alasdair Cooke – Executive

The remuneration committee meets twice a year and as required. The committee met twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 5.

4.4. Remuneration Report - audited

4.4.1. Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Group and executives for the Group including the five most highly remunerated Group executives.

Compensation levels for key management personnel and secretaries of the Company and key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board assesses the appropriateness of remuneration packages of both the Group based on trends in comparative companies.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the performance of their respective areas of responsibility

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance based incentives.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

Performance linked compensation

The Group has historically had an options-based long term performance component built into director and executive compensation packages. The terms of the vesting of the options are contingent on a range of criteria including continued employment, the achievement of mining operations, completion of bankable feasibility studies, and/or an increase in mining reserves. With recent changes in the taxation of options-based schemes, the company is reviewing its approach to equity-based, long term, performance linked compensation.

Long term incentive structure

The Group believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer to section 13 and 14 of this report.

The Group does not have, but should the need arise will develop, a policy that will prohibit those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

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Consequences of performance on shareholder wealth

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to executive directors and executives to encourage the alignment of personal and shareholder interests. There are currently no financial targets set for the performance related remuneration.

Non-executive directors

Remuneration of non-executive directors is determined by the Board with reference to comparable industry levels. Total compensation for all non-executive directors is not to exceed \$200,000 per annum as approved by shareholders and is set based on advice from external advisors.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

Service contracts

Service contracts are in place for senior executives and outline the components of compensation paid to the key management personnel but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

Remuneration and terms of employment for the key management personnel are formalised in service agreements, the terms of which are set out below. None of the contracts include termination benefits:

	Terms	Fees/Salaries per annum	
		From 1 May 2009 to 30 April 2010	From 1 May 2010 to 30 April 2011
Non-executive directors			
B Sullivan <i>Chairman</i>	Subject to re-election as required by Company's constitution.	55,000	60,500
P Reeve	No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing.	38,500	42,350
C Burton <i>(resigned 30 March 2010)</i>	No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing.	38,500	-
Executives			
Executive directors			
M Anderson <i>Managing Director</i>	No fixed term. The arrangement may be terminated by either party giving 6 months notice in writing.	323,400	350,700
A Cooke <i>Executive Director</i>	No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing.	132,000	145,200
Other key management personnel			
G Laing <i>Corporate & Project Development Manager</i>	Term of agreement - 12 months commencing 20 August 2007 reviewed annually. The arrangement may be terminated by either party giving 6 months notice in writing.	279,340	306,700
E Byrne <i>Company Secretary</i>	No fixed term. The arrangement may be terminated by either party giving 6 months notice in writing.	254,340	280,200
B McLarty <i>Commercial Manager</i>	Term of agreement - 12 months commencing 1 May 2006 renewed annually. The arrangement may be terminated by either party giving 1 months notice in writing.	279,340	279,200
S Konecny <i>Exploration Manager</i>	Mr Konecny is an independent contractor and does not have a service contract.	N/A	N/A

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Directors' Report

4.4.2. Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Company executives and relevant Group executives who receive the highest remuneration and other key management personnel are included in the table below.

		Salary & Fees	Short-Term Cash bonus	Non-monetary benefits	Sub Total	Post Employment Super-annuation benefits	Share-based payments Options	Total	Value of bonus as % of Total	Value of options as % of Total (a)
		\$	\$	\$	\$	\$	\$	\$	%	%
Directors										
M. Anderson	2010	310,083	30,500	-	340,583	14,461	-	355,044	8.6	-
	2009	305,000	-	4,089	309,089	13,745	52,290	375,124	-	13.9
A. Cooke	2010	134,200	-	-	134,200	-	-	134,200	-	-
	2009	132,000	-	-	132,000	-	32,681	164,681	-	19.9
B. Sullivan	2010	20,395	-	-	20,395	35,523	-	55,918	-	-
	2009	-	-	-	-	55,000	13,073	68,073	-	19.2
C. Burton*	2010	28,875	-	-	28,875	-	-	28,875	-	-
	2009	38,500	-	-	38,500	-	8,715	47,215	-	18.5
P Reeve	2010	7,058	-	-	7,058	32,083	-	39,141	-	-
	2009	43,571	-	-	43,571	-	-	43,571	-	-
Executives										
B McLarty	2010	264,999	26,500	-	291,499	14,461	-	305,960	8.7	-
	2009	265,000	-	-	265,000	13,745	39,837	318,582	-	12.5
G Laing	2010	269,418	26,500	-	295,918	14,461	44,096	354,475	7.5	12.4
	2009	265,000	-	-	265,000	13,745	100,473	379,218	-	26.5
S Konecny	2010	167,400	20,000	-	187,400	-	-	187,400	10.7	-
	2009	200,450	-	-	200,450	-	31,869	232,319	-	13.7
E Byrne**	2010	246,000	22,000	-	268,000	14,461	92,232	374,693	5.9	24.6
	2009	200,000	-	-	200,000	11,454	155,362	366,816	-	42.4
Total										
	2010	1,448,428	125,500	-	1,573,928	125,450	136,328	1,835,706	6.8	7.4
	2009	1,449,521	-	4,089	1,453,610	107,689	434,300	1,995,599	-	21.8

*Resigned 30 March 2010

**Appointed 1 September 2008

Remuneration payments to C. Burton and A. Cooke were made to related entities, Verona Capital Pty Ltd and Hartree Pty Ltd, respectively.

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Directors' Report

Notes in relation to the table of directors' and executive officers' remuneration

- a) The fair value of the options is calculated at the date of grant using a binominal option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. Market conditions have been taken into account within the valuation model.
- b) The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Option life	Fair value per option (cents)	Exercise price (cents)	Price of shares on grant date (cents)	Expected volatility	Risk free interest rate	Dividend yield
1/09/2008	4.0 yrs	18.47	40	37.0	72%	5.70%	-
14/08/2007	3.0 yrs	15.91	40	29.0	80%	6.25%	-
25/10/2007	4.0 yrs	20.68	40	41.0	60%	6.30%	-
4/12/2007	2.5 yrs	14.48	40	37.0	60%	6.25%	-
7/09/2006	4.0 yrs	14.84	20	24.0	75%	5.87%	-
7/09/2006	4.0 yrs	13.61	20	26.5	75%	5.87%	-
7/09/2006	4.0 yrs	12.66	25	26.5	75%	5.87%	-

Analysis of bonuses included in remuneration

	Included in remuneration	Short-term incentive bonus	
	\$ (A)	% vested in year	% forfeited in year (B)
Directors			
M Anderson	30,500	100%	-
Executives			
B McLarty	26,500	100%	-
G Laing	26,500	100%	-
S Konecny	20,000	100%	-
E Byrne	22,000	100%	-

- (A) Cash bonuses awarded as remuneration to the relevant specified executives were granted on 24 November 2009, following an annual review of the executive's overall achievements and performance for the year.
- (B) The cash bonuses awarded as remuneration to the relevant specified executives were fully vested and paid in the year ended 30 June 2010 and none were forfeited during the current or prior year.

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4.4.3. Equity Instruments

All options refer to options over ordinary shares of Exco Resources Limited, which are exercisable on a one-for-one basis.

Options and rights over equity instruments granted as remuneration

Details on options over ordinary shares in the Company that were granted as remuneration to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

Holders	Number of options granted during 2010	Grant date	Fair value per option at grant date (cents)	Exercise price per option (cents)	Expiry date	Number of options vested during 2010	Number of options expired during 2010
Directors							
M Anderson	-	-	-	-	-	-	1,200,000
A Cooke	-	-	-	-	-	-	750,000
C Burton	-	-	-	-	-	-	200,000
B Sullivan	-	-	-	-	-	-	300,000
Executives							
B McLarty	-	-	-	-	-	-	1,000,000
G Laing	-	-	-	-	-	500,000	-
S Konecny	-	-	-	-	-	-	800,000
E Byrne	-	-	-	-	-	500,000	-

Holders	Number of options granted during 2009	Grant date	Fair value per option at grant date (cents)	Exercise price per option (cents)	Expiry date	Number of options vested during 2009	Number of options expired during 2009
Directors							
M Anderson	-	-	-	-	-	600,000	-
A Cooke	-	-	-	-	-	375,000	-
C Burton	-	-	-	-	-	100,000	-
B Sullivan	-	-	-	-	-	150,000	-
Executives							
B McLarty	-	-	-	-	-	500,000	-
G Laing	-	-	-	-	-	500,000	-
S Konecny	-	-	-	-	-	400,000	-
E Byrne	1,500,000	1/09/2008	18.47	40	30/08/2012	-	-

The options were provided at no cost to the recipients.

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable three years from grant date, with the exception of the options issued to Mr. Byrne which expire 4 years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives as discussed above.

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Exercise of options granted as compensation

During the reporting period the following shares were issued on the exercise of options previously granted as remuneration.

	2010		2009	
	Number of shares	Amount paid per share	Number of shares	Amount paid per share
Director				
M Anderson	1,000,000	20 cents	-	-
Executive				
B McLarty	1,500,000	20 cents	-	-

Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the five named Group executives is detailed below.

	Granted during period \$ (a)	Exercised during period \$ (b)
Directors		
M Anderson	-	90,000
A Cooke	-	-
C Burton	-	-
B Sullivan	-	-
Executives		
B McLarty	-	135,000
G Laing	-	-
S Konecny	-	-
E Byrne	-	-

- The value of options granted in the year is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- The value of options exercised during the year is calculated as the market prices of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

4.5. Audit and Compliance policy

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

ASXCGC recommendation 4.3 requires listed entities to have an audit committee consisting of only non-executive directors, a majority of independent directors, an independent Chairman, who is not Chairman of the board and at least three members. ASXCGC recommendation 4.4 requires the audit committee to have a formal charter.

The Company does not currently comply with the recommendations. During the year ended 30 June 2010, the Company did not have a separate audit committee. The duties and responsibilities typically delegated to such a committee were considered to be the responsibility of the full Board, given the size and nature of the Company's activities.

EXCO RESOURCES LIMITED

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Directors' Report

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board maintains responsibility for a framework of internal control and ethical standards for the management of the Consolidated Entity.

The Board, which consists of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Consolidated Entity.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the Company's financial reports for the year ended 30 June 2010 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

4.6. Risk management

Oversight of the risk management system

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the consolidated entity's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Consolidated Entity believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee.

The Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan, which encompasses the consolidated entity's vision and strategy, designed to meet stakeholder's needs and manage business risks.

The Managing Director and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Consolidated Entity.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the consolidated entity's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

4.7. Ethical standards

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Consolidated Entity. The Company guides directors and employees in the practice of compliance with these objectives through policy and procedural documents outlining the duties and responsibilities of individuals in relation to the objectives.

EXCO RESOURCES LIMITED

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Directors' Report

Code of conduct

The Board has advised each director and company officer that they must comply with the Group's ethical standards and Code of Conduct. The code covers the following:

- Directors and officers must act in the best interests of the company as a whole. Directors shall engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Directors and officers must not take advantage of their position or information acquired, in the course of their duties, or misuse information for personal gain or to cause detriment to the company.
- Confidential information received in the course of the exercise of duties remains the property of the company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Chairman with consideration to the persons concerned, or as required by law.
- Directors and officers shall act honestly and with integrity in all of their dealings with employees, suppliers, customers and competitors such that the best interests and reputation of the company are maintained and enhanced.
- Directors and officers must use their best endeavours to protect the company's assets and ensure that those assets are used for business purposes only.
- Directors and officers have an obligation, at all times, to comply with the spirit, as well as the letter, of the law, including any applicable rules and regulations.
- Directors and officers will at all times strongly encourage legal and ethical behaviour. If a director becomes aware of unlawful or unethical behaviour then they are obliged to report such activities to the Chairman. Information provided should be treated in a discrete and confidential fashion and the matters dealt with expeditiously.

Conflict of Interest

In accordance with the Corporations Act and the Company's constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Share trading policy

The Company has established a policy that imposes certain restrictions on directors, senior management and other employees trading in the Company's securities. The policy has been adopted to prevent trading in contravention of the insider trading provisions of the Corporations Act 2001, in particular when Company personnel are in possession of price-sensitive information.

In general trading in the Company's securities is prohibited:

- whilst in possession of unpublished price sensitive information;
- where officers are engaging in the business of active dealing;
- two weeks before and 24 hours after the release of the Company's quarterly, half yearly or annual report to the ASX; and
- two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications, except to the extent that a director or employee is applying for securities pursuant to that disclosure document.

Directors must notify the Board and employees must notify a director in advance of any transactions involving the Company's securities. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, directors advise the ASX of any transaction conducted by them in shares or options in the Company.

EXCO RESOURCES LIMITED

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Directors' Report

Health, safety, environment and heritage protection policy

The Company is committed to compliance with all relevant laws and regulations and continual assessment of its operations to ensure protection of the environment, the community and the health and safety of its employees. The Company has adopted a policy and maintains appropriate procedures to ensure that all Company activities are carried out in compliance with safety regulations, in a culture where the safety of personnel is paramount and which recognises environmental sustainability and respect for cultural and heritage issues as essential requirements for all its activities. Procedures are maintained to govern the activity of employees and contractors to ensure that the objectives of this policy are met.

4.8. Communication with shareholders

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- Notify the ASX immediately if it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the Company's securities, unless that information is not required to be disclosed under the listing rules;
- Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Company Secretary is responsible for coordinating the disclosure requirements. To ensure appropriate procedure all directors, officers and employees of the Company coordinate disclosures through the Company Secretary, including:

- Media releases;
- Analyst briefings and presentations; and
- The release of reports and operational results.

Information not disclosed via ASX announcement that might be considered share price sensitive will not be discussed with any external parties except for third parties bound by confidentiality agreements with the Company. Discussions with external parties will only occur following an ASX announcement. All written materials containing new price sensitive information to be used in briefing media, investors and analysts will be notified to the ASX prior to the commencement of that briefing. In reviewing the content of analysts' reports and profit forecasts, the company will correct factual inaccuracies or historical matters.

Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments. The annual report is lodged with the Australian Securities and Investment Commission and the ASX.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.
- Quarterly reports are prepared in accordance with ASX listing rules and in summary form are distributed to all shareholders.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements and related information made to the market are placed on the Company's website after they are released to the ASX, including regular updates on operations.
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website. Copies of all presentations made by the Company in a public forum are posted on the website. The majority of the information is also e-mailed to all shareholders who lodge their e-mail contact details with the Company.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Report

The external auditor is requested to attend the Annual General Meeting to answer any questions concerning the audit and the auditor's report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are responsible for voting on the appointment of directors, approval of the maximum amount of directors' fees and the granting of options and shares to directors.

The following table cross references the ASXCGC Recommendations to the relevant sections of the Corporate Governance Statement and Remuneration Report.

	Recommendation	Comply Yes / No	Reference
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management.	Yes	Page 6
2.1	A majority of the Board should be independent directors.	No	Page 6
2.2	The chairperson should be an independent director.	Yes	Page 6
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	Yes	Page 6
2.4	The Board should establish a nomination committee.	No	Page 7
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none">the practices necessary to maintain confidence in the Company's integrity;the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Page 15
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees.	Yes	Page 15
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.	Yes	Page 14
4.2	The Board should establish an audit committee.	No	Page 13
4.3	Structure the audit committee so that it consists of: <ul style="list-style-type: none">only non-executive directors;a majority of independent directors;an independent chairperson, who is not chairperson of the Board;at least three members.	No	Page 13
4.4	The audit committee should have a formal charter.	No	Page 13
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Yes	Page 16
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Yes	Page 16
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	Yes	Page 17

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FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Report

	Recommendation	Comply Yes / No	Reference
7.1	The Board or appropriate Board committee should establish policies on risk oversight and management.	Yes	Page 14
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: <ul style="list-style-type: none">the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Boardthe Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	Yes	Page 14
8.1	Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives.	Yes	Page 8
9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Yes	Page 8
9.2	The Board should establish a remuneration committee.	Yes	Page 7
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Yes	Page 9
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	Yes	Page 12
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	Yes	Page 14

5. Principal activities

The principal activities of the Group during the course of the financial year consisted of exploration, evaluation, development and production of mineral interests.

6. Earnings per Share

The basic earnings per share for Exco Resources Limited was a loss of 1.65 cents per share (2009: loss 1.39 cents per share).

7. Review and results of operations

The consolidated loss after tax attributable to members of the Group for the financial year ending 30 June 2010 was \$5,141,296 (30 June 2009: \$3,545,395 loss). A review of the Group's operations is outlined in section 10 of this report.

8. Dividends

No dividends have been paid or declared by the Company during the year ended 30 June 2010 (2009: nil).

9. Likely developments

The Group will pursue activities consistent with its corporate objectives and joint venture partners. Further information about likely developments not included in summary of subsequent events in note 15 of this report in the operations of the Group and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Group.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Report

10. Operations

10.1. White Dam Gold Production Joint Venture (Exco 75%, Polymetals Group Pty Ltd 25%)

The White Dam Gold Project is located in South Australia approximately 80kms west of Broken Hill. The project contains a resource inventory of 9.6Mt @ 1.05 g/t Au for 325,000oz contained (see Table 1).

TABLE 1: WHITE DAM PROJECT OK RESOURCE ESTIMATE (0.4g/t CUT-OFF GRADE)

Deposit	Material	Indicated			Inferred			Total		
		kts	g/t Au	koz Au	kts	g/t Au	koz Au	ks	g/t Au	koz Au
White Dam	Oxide	5,149	1.09	180.1				5,149	1.09	180.1
	Fresh	603	1.08	20.9	1,315	0.88	37.1	1,918	0.94	58
Sub-Total		5,752	1.07	201.0	1,315	0.88	37.1	7,067	1.05	238.1
Vertigo	Oxide				1,200	1.00	38	1,200	1.00	38
	Fresh				1,330	1.14	49	1,330	1.14	49
Sub-Total					2,530	1.07	87	2,530	1.07	87
PROJECT TOTAL		5,752	1.07	201	3,845	1.00	124	9,597	1.05	325

Note: White Dam resource was re-estimated in early 2009, Vertigo was estimated in 2007.

Individual columns of data may not add up due to rounding errors.

- **JV funding secured:** On the 11 September 2009 Exco announced that with its joint venture partner, Polymetals Group Pty Ltd, it had completed the financing arrangements in respect of the White Dam Gold Project. A\$16 million gold-linked pre-payment facility had been secured which, together with equity funding from the JV partners of \$7.5 million, providing the full funding required to implement the project.
- **White Dam reserve upgrade:** On 5 October 2009 Exco announced an upgrade to the White Dam Probable Reserve with an increase of 21,400 ounces (up 14%), representing an 86% conversion of Indicated Resources to Probable Reserve.

Commencement of construction: As a result of the reserve upgrade the financing arrangements for the project were completed and the project commenced construction in early October 2009 with first ore placed on the leaching pad in February 2010. The project was officially opened by the South Australian Minister for Resources Development, the Hon Paul Holloway MLC on 10th June 2010.

- **First gold production:** Project commissioning was successfully during the fourth quarter with first gold production achieved on 16 April 2010. By the end of June a total of 12,928 ounces of gold had been produced.

White Dam Production Joint Venture - Production Statistics (Exco's 75% interest)

		Sep Qtr 09	Dec Qtr 09	March Qtr 10	June Qtr 10	Full Year 09/10
Ore Tonnes Mined	(tonnes)			273,565	621,839	895,403
Mined Grade	(g/t)			1.02	1.01	1.01
Mined Ounces	(ounces)			8,972	20,104	29,076
Waste Tonnes Mined	(tonnes)			1,349,680	737,752	2,087,432
Ore placed on Leach	(tonnes)			273,565	621,839	895,403
Head Grade	(g/t)			1.02	1.01	1.01
Ounces Produced	(ounces)			-	9,696	9,696
Gold Loan Repayments	(ounces)			-	3,224	3,224
Ounces Sold	(ounces)			-	3,731	3,731

- **Health Safety and Environment:** There has been one LTI recorded since the project inception. There have been no reportable environmental incidents for the project to date.
- **Near mine exploration:** In August 2010 the Joint Venture partners initiated a near-mine exploration and resource development programme at White Dam and the nearby targets of Vertigo, White Dam North and Ambush with a view to extending the life of the project.

EXCO RESOURCES LIMITED

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Directors' Report

- **Price protection:** In addition to the option purchases required under the terms of financing, upon the achievement of consistent production the Company decided to establish modest levels of price protection in place to secure a proportion of the expected cash flows from the project. The price protection was arranged in two tranches in early May and late June 2010.

In addition to the mandatory hedging and put options, the company now has 7,500 ounces on refreshable short-term forward sold contracts at initial prices ranging from A\$1,375/oz to A\$1,432/oz. In addition 19,000 ounces put options at A\$1,250/oz with expiry dates over the period from May 2011 to November 2011 have been purchased.

10.2. Cloncurry Copper Project (CCP) (Exco 100%)

The CCP is made up of seven main deposits located in three different geological settings, four deposits in the Mt Margaret area (E1 North, South, East and Central), two at Monakoff (Monakoff and Monakoff East) and one deposit on the edge of Cloncurry at the historical Great Australia mine. Resources delineated for the project to date now total 55Mt at 0.85% copper and 0.22g/t gold. (see Table 2). The centre of gravity for the project is the E1 Camp located 8km east of the existing Ernest Henry Mine owned by Xstrata, in a region well serviced by infrastructure.

- **EIS & DFS update:** On 15 September 2009 Exco announced that the Environmental Impact Statement (EIS) in relation to the CCP had been submitted to the Queensland Department of Environment and Resources Management (DERM). Submission of the EIS to DERM is an important milestone in pursuit of the relevant approvals for the CCP. The EIS public consultation process closed in January 2010. Matters arising from the assessment report are currently being addressed and Exco continues to work closely with DERM to expedite this process.

Meanwhile, work continued on the Definitive Feasibility Study (DFS). Final pit design and mine scheduling are in progress. Geotechnical studies on the open pits have been completed. The metallurgical testwork programme is ongoing and progress has been made in the areas of impurity removal, recovery optimisation and by-product recovery. Key elements of the DFS including infrastructure design and discussions with infrastructure owners/providers in the region are ongoing.

- **Mt Colin Underground Mining Study:** On 4 March 2010 Exco announced an updated resource estimate at Mt Colin of **1.49Mt @ 2.47% Cu** (at a 1.25% Cu cut-off), an increase of 123%. An Indicated resource (**0.62Mt @ 3.14% Cu**) has been drilled on an approximately 40 x 40 m grid, with wider spaced drilling, at depth and along strike, being classified as Inferred.

Resource drilling, geotechnical studies, hydro-geological studies and environmental studies are ongoing. The drill programme is expected to total approximately 4,500ms. Initial drilling has confirmed the high grade potential at Mt Colin with a best intersection to date of 17m @ 4.6% Cu & 1.34g/t from EMCDD034.

- **CCP maiden measured resource:** On 7 April 2010 the Company announced that detailed geological logging and modelling of the E1 deposits had been completed based on currently available information. The updated data has added to the confidence in the resources and allowed 9.17Mt to be classified as Measured.

Total resources for the CCP now comprise **55.7Mt @ 0.85% Cu & 0.22 g/t Au** of which **37.9 Mt @ 0.86% Cu & 0.22 g/t Au** has been classified as Indicated or Measured.

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TABLE 2: EXCO RESOURCES – NW QUEENSLAND Cu-Au RESOURCE SUMMARY

Deposit	Class	Tonnes	Grade		Metal	
			Cu%	Au g/t	Cu T	Au Oz
E1 Camp ⁽²⁾	<i>Measured</i>	9,170,000	0.87	0.25	80,000	75,000
	<i>Indicated*</i>	24,700,000	0.71	0.21	177,000	165,000
	<i>Inferred*</i>	14,200,000	0.64	0.2	91,000	90,000
TOTAL		48,100,000	0.72	0.21	348,000	330,000
Monakoff ⁽¹⁾ & Monakoff East	<i>Indicated</i>	2,000,000	1.39	0.44	28,000	28,000
	<i>Inferred</i>	2,000,000	1.3	0.4	25,000	26,000
TOTAL		4,000,000	1.32	0.42	53,000	54,000
Great Australia ⁽¹⁾	<i>Indicated</i>	1,400,000	1.53	0.13	21,000	6,000
	<i>Inferred</i>	800,000	1.57	0.14	12,000	3,000
TOTAL		2,100,000	1.54	0.13	33,000	9,000
Mt Colin ⁽¹⁾	<i>Indicated**</i>	620,000	3.14	-	19,500	-
	<i>Inferred**</i>	870,000	2.0	-	17,500	-
TOTAL**		1,490,000	2.47	-	37,000	-
Sub-total – CCP	Measured	9,170,000	0.87	0.25	80,000	75,000
	Indicated	28,720,000	0.86	0.22	246,000	199,000
	Inferred	17,870,000	0.82	0.21	146,000	119,000
	ALL	55,700,000	0.85	0.22	472,000	394,000
Other Deposits						
Turpentine	<i>Indicated</i>	1,627,000	1.04	0.21	17,000	11,000
	<i>Inferred</i>	215,000	0.9	0.16	2,000	1,000
TOTAL		1,841,000	1.03	0.2	19,000	12,000
Taipan	<i>Inferred</i>	1,460,000	0.80	0.1	12,000	5,000
Kangaroo Rat ⁽¹⁾	<i>Inferred</i>	875,000	1.65	1.0	14,400	28,000
Wallace South	<i>Inferred***</i>	1,000,000	-	1.6	-	53,000
Victory-Flagship	<i>Inferred</i>	196,000	1.2	1.4	2,000	9,000
Sub-total - Other		5,400,000	0.88	0.62	47,400	107,000
TOTAL		61.0 Mt	0.85	0.25	519,400	500,000

- *Notes*
- *Discrepancies in totals are as result of rounding.*
- ⁽¹⁾ *Granted Mining Lease.*
- ⁽²⁾ *~30 % of E1 camp resources on a granted Mining Lease.*
- *Unless otherwise stated the above resources are reported at a 0.5% Cu cut-off.*
- ** E1 resources completed at 0.3%Cu cut-off.*
- *** Mt Colin resource cut-off = 1.25% Cu.*
- **** Wallace South resource cut-off = 0.5g/t*

10.3. Queensland exploration activities (100% Exco)

- **Drilling resumed at the Cloncurry Copper and Hazel Creek projects:** Drilling re-commenced on a number of Exco's key regional exploration prospects within the Cloncurry Copper and Hazel Creek Projects during the December quarter and was resumed after the wet season during quarters three and four. The programmes were planned both to follow-up on previous positive results at a number of prospects, and to focus on untested or partially tested geophysical anomalies and these programmes are continuing.

EXCO RESOURCES LIMITED

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Directors' Report

During the June quarter three drill rigs were mobilised testing a range of targets throughout the Cloncurry and Hazel Creek areas and a steady flow of results is expected.

On 31 August 2010 the Company announced that diamond drilling had commenced at the Turpentine Deposit in the Hazel Creek project targeting extensions to the known resource. All three holes drilled to date had intersected the target zone at the predicted depth. Core samples are progressively being dispatched to the laboratory.

- **2009 Tanbah results:** Final results for the final 7 Reverse Circulation (RC) holes drilled late in 2009 at the Tanbah prospect were received during the March quarter. Significant widespread low grade copper and gold mineralisation has been intersected in most holes drilled. Best results were:
 - ECRC330 36m @ 0.50% Cu & 0.33 g/t Au from 8-44m
 - ECRC337 52m @ 0.36% Cu & 0.19 g/t Au from 12-64m
 - ECRC338 44m @ 0.56% Cu & 0.42 g/t Au from 42-86m

Within these broad lower grade zones are areas of stronger mineralisation:

- ECRC330 6m @ 0.88% Cu & 0.96 g/t Au from 38m
- ECRC337 12m @ 0.60% Cu & 0.33 g/t Au from 46m
- ECRC338 14m @ 0.83% Cu & 0.75 g/t Au from 48m
- ECRC338 8m @ 0.74% Cu and 0.4 g/t Au from 74m.

On 31 August 2010 the Company announced that RC drilling at Tanbah has defined zones of greater than 1% copper including 13m @ 1.40 % Cu & 1.01 g/t Au to the end of hole ECRC341. Follow-up diamond drilling has been completed with results expected shortly.

- **Salebury Prospect:** Two RC holes for 230 metres were drilled between existing drill lines at the Salebury Prospect. Excess water flows prevented holes reaching planned depth. ECRC316 intersected 6m @ 1.56% Cu and 0.71 g/t Au from 30m depth. On 31 August 2010 the Company announced diamond drill hole ECDD002 had intersected 48m @ 2.18% Cu & 1.97 g/t Au including 32m @ 2.87% Cu & 2.76 g/t Au suggesting that significant new resource potential exists at this priority target.

10.4. Queensland Joint Ventures

10.4.1. Ivanhoe JV (Exco 100% - Ivanhoe Australia earning up to 80%)

During the September quarter drilling programmes were completed at Back Creek, Saxby (EPM 12285), Fairmile West (EPM 12290), Mac's Tank. and Garnet Creek. Ground magnetic surveys were completed at Wewak and started at Killer Bore North. Mapping and a Niton XRF surveys were completed at Willy's Bore outlining several copper anomalies.

Assay results from drilling programmes at Saxby and Fairmile West are incomplete with no significant mineralisation in those received to date. Geophysical data from Garnet Creek is being processed to identify further drill targets.

Field work done during the December quarter included drilling at U4 (EPM 11676), Mac's Tank (EPM 13741) and Garnet Creek (EPM 11169); and ground magnetic surveys at Killer Bore North (EPM 16177) and Wewak (EPM 14033).

10.4.2. Liantown JV (Liantown 100%, Exco Option to earn up to 70%)

Four buried magnetic targets were tested by 4 RC holes for 461 metres in the December quarter. Some low level copper (up to 0.14% over 2 metre intervals), was encountered in ECRC313, with associated elevated gold arsenic cobalt and molybdenum.

10.5. Projects not listed

Projects that are not mentioned in this report have had no significant results during the year or results are not yet available.

EXCO RESOURCES LIMITED

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Directors' Report

11. State of affairs

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

- At a General Meeting of the Company held on 29 September 2009, resolutions to ratify the previous issue of shares and options under ASX Listing Rule 7.4, and to approve the issue of Options, were passed.
- On 22 October 2009 Exco announced the execution of a placement agreement to raise A\$10.1m (before expenses) through the issue of approximately 41.3million shares at 24.5 cents each.
- Exco's Annual General Meeting took place on Tuesday the 24th of November 2009 in Perth. All resolutions before the meeting were passed.
- On 30 March 2010, non-executive director, Mr Craig Burton, tendered his resignation to the Board of Exco Resources Limited. Mr Burton had been a director of the Company since 2001. His decision to retire was due to extensive current and ongoing business commitments.
- On 3 May 2010 the Company announced that 2,500,000 employee incentive options at 20 cents had been exercised raising a total of \$500,000 before costs.
- On 1 July 2010 the Company advised that under the granting terms and conditions, 7,900,000 Unlisted Options at an exercise price of \$0.40 and an expiry date of 30/06/2010 had lapsed.

12. Environmental regulation

The Company's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its mining exploration activities. The management of the Company monitor compliance with the relevant environmental legislation. The Directors are not aware of any breaches of the legislation during the period covered by this report.

13. Share Options

Options granted to directors and officers of the Company

During or since the end of the financial year, the Company has not granted any options to directors or to the five most highly remunerated officers of the Company as part of their remuneration:

Unissued shares under options

At the date of this report the total unissued ordinary shares of the Company under option including options held by key management personnel are:

Expiry date	Exercise price (\$)	Number of shares
30/08/2011	\$0.40	1,500,000
30/08/2012	\$0.40	1,500,000
10/09/2012	\$0.28	4,500,000
21/10/2012	\$0.273	1,650,000

All employee options expire on the earlier of their expiry date or termination of the employee's employment.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

During or since the end of the financial year, the following ordinary shares were issued as a result of the exercise of options.

Number of shares	Amount paid per share
2,500,000	20 cents
1,500,000	25 cents

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Report

14. Directors' interests

The relevant interest of each director in the share capital as notified by the directors to the Australian Securities Exchange in accordance with S205G (1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
M Anderson	1,750,000	-
A Cooke	17,224,988	-
B Sullivan	50,000	-
P Reeve	-	-

15. Events subsequent to balance date

Share Placement

On 10 August 2010 the Company announced that it had executed a Subscription Agreement to raise A\$4.9m (before expenses) through the issue of approximately 16.4 million fully paid ordinary shares (5% of the total fully paid ordinary shares on issue at 9 August 2010) at 30 cents each to Aus-Ore Investments Pty Ltd, which is an investment vehicle for Sin-Tang Development Pte Ltd of Singapore.

The issue price of the shares represented a 15% premium on the 30 Day VWAP to 4 August 2010.

The parties have agreed to use their best endeavours to reach agreement in the next three months with regard to a proposed strategic investment by Sin-Tang in the Company's Cloncurry Copper Project in north-west Queensland. Negotiations between the parties for the second stage will encompass both the purchase of an interest and the provision of debt financing for the project.

The Company intends to use the monies raised from the placement to fund exploration and resource development activities at its portfolio of Copper-Gold Projects in north-west Queensland.

Exercise of Options

On 30 August 2010 the Company announced that 1,500,000 employee incentive options at 25 cents had been exercised raising a total of \$375,000 before costs.

16. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for the financial year ended 30 June 2010.

17. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Report

Details of the amount paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	30-June-10	30-June-09
	\$	\$
Auditors' Remuneration		
Audit fees - KPMG	95,810	67,159
Tax services fees - KPMG	-	10,000
Other accounting fees - KPMG	-	10,000
	95,810	87,159

18. Indemnification and insurance of officers

The Company has agreed to indemnify the current Directors and Officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Officers of the Company except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities including costs and expenses.

19. Company Share performance & shareholder wealth

During the financial period the Company's share price traded between a low of 19 cents and a high of 34 cents. The price volatility is a concern to the Board but is not considered abnormal for a junior explorer such as Exco Resources Limited. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investment community so as to increase awareness of the Company. Details of the consequences of performance on shareholders wealth are disclosed in section 4.4.1 of the Remuneration Report.

20. Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

21. Insurance premiums

The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current Directors and Officers of the Company. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever the outcome.
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Dated at Perth this day of 30th September 2010.

Signed in accordance with a resolution of the Directors.



Michael Anderson
Managing Director

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Forward looking statements & competent persons statement

FORWARD LOOKING STATEMENTS & COMPETENT PERSONS STATEMENT

This report contains forward looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

All references to dollars, cents or \$ in this presentation are to AUD currency, unless otherwise stated.

Information in this report relating to mineral resources and exploration results is based on data compiled by Exco's Exploration Manager Stephen Konecny who is a member of The Australasian Institute of Mining and Metallurgy. Mr Konecny has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Persons under the 2004 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Konecny consents to the inclusion of the data in the form and context in which it appears.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Lead Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Exco Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart'.

Trevor Hart
Partner

Perth

30 September 2010

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Consolidated statement of comprehensive income

		30-June-10	30-June-09
	Note	\$	\$
Sales revenue	6	7,022,317	-
Cost of goods sold	8	(4,890,629)	-
Gross Profit		2,131,688	-
Other income	7a	280,455	407,008
		2,412,143	407,008
Deferred revenue cost		(270,000)	-
Exploration expense		(771,219)	(326,473)
Employee expenses	10	(1,134,910)	(1,051,405)
Depreciation	17	(209,143)	(223,077)
Office costs		(393,050)	(319,910)
Professional and corporate expenses	11	(483,659)	(466,648)
Insurance		(47,120)	(62,178)
Reversal of other income		-	(1,142,757)
Impairment of equity accounted investment	12	(51,617)	(500,000)
Other expenses from ordinary activities		(619,708)	(336,124)
Results from operating activities		(1,568,283)	(4,021,564)
Finance income	7b	511,574	476,169
Finance expense	7c	(4,084,587)	-
Net finance (expense)/income		(3,573,013)	476,169
Loss before income tax		(5,141,296)	(3,545,395)
Income tax expense	13	-	-
Loss for the period		(5,141,296)	(3,545,395)
Other comprehensive income		-	-
Total comprehensive loss for the period		(5,141,296)	(3,545,395)
Total comprehensive loss attributable to:			
Owners of the Company		(5,141,296)	(3,545,395)
Basic loss per share (cents)	9	(1.65)	(1.39)
Diluted loss per share (cents)	9	(1.65)	(1.39)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Consolidated statement of financial position

		30-June-10	30-June-09
	Note	\$	\$
Current assets			
Cash and cash equivalents	14	10,086,715	10,800,317
Trade and other receivables	15	2,623,771	70,025
Inventory	16	7,627,242	-
Derivatives	5d	23,285	-
Total current assets		20,361,013	10,870,342
Non-current assets			
Receivables	15	1,210,251	254,751
Property, plant and equipment	17	1,459,107	1,935,379
Exploration and evaluation expenditure	18	40,713,220	42,741,510
Mine and development properties	19	15,064,011	-
Total non-current assets		58,446,589	44,931,640
Total assets		78,807,602	55,801,982
Current liabilities			
Trade and other payables	20	6,406,777	882,095
Deferred revenue	21	2,415,729	-
Provisions	22	135,905	142,412
Derivatives	5d	1,522,511	-
Total current liabilities		10,480,922	1,024,507
Non-current liabilities			
Deferred revenue	21	7,117,911	-
Provisions	22	833,434	-
Derivatives	5d	160,840	-
Total non-current liabilities		8,112,185	-
Total liabilities		18,593,107	1,024,507
Net assets		60,214,495	54,777,475
Equity			
Contributed equity	23	68,968,927	59,128,214
Reserves	24	3,253,635	2,516,032
Accumulated losses		(12,008,067)	(6,866,771)
Total equity		60,214,495	54,777,475

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Consolidated statement of cash flows

	Note	30-June-10 \$	30-June-09 \$
Cash flows from operating activities			
Receipts from customers		4,671,112	-
Proceeds from deferred revenue		12,000,000	-
Cash payments in the course of operations		(9,522,970)	(1,549,123)
Interest received		480,360	476,169
Option premium payments		(2,424,521)	-
Net cash from/(used in) operating activities	29	5,203,981	(1,072,954)
Cash flows from investing activities			
Cash payments for exploration and evaluation expenditure		(3,803,799)	(12,172,911)
Cash payments for development expenditure		(10,852,285)	-
Cash payments for acquisition of equity investments		(51,617)	-
Movements in security deposits		(1,255,000)	-
Movement in loan from joint venture partner		-	312,500
Cash payments for plant and equipment		(179,790)	(110,102)
Proceeds from sale of property, plant and equipment		63,944	11,300
Proceeds from sale of tenements		-	1,400,000
Net cash used in investing activities		(16,078,547)	(10,559,213)
Cash flows from financing activities			
Proceeds from issue of shares		10,626,406	7,202,750
Share issue costs		(465,442)	(330,646)
Net cash from financing activities		10,160,964	6,872,104
Net decrease in cash held		(713,602)	(4,760,063)
Cash at the beginning of the financial period		10,800,317	15,560,380
Cash at the end of the financial period	14	10,086,715	10,800,317

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Consolidated statement of changes in equity

Consolidated	Issued capital	Accumulated losses	Share-based payments reserve	Total equity
Balance at 1 July 2009	59,128,214	(6,866,771)	2,516,032	54,777,475
Loss for the period	-	(5,141,296)	-	(5,141,296)
Total comprehensive loss for the period	-	(5,141,296)	-	(5,141,296)
Transactions by owners, recorded directly in equity				
Issue of shares	10,126,405	-	-	10,126,405
Exercise of options	500,000	-	-	500,000
Share issuance costs	(785,692)	-	-	(785,692)
Share-based payments	-	-	737,603	737,603
Balance at 30 June 2010	68,968,927	(12,008,067)	3,253,635	60,214,495
At 1 July 2008	52,256,110	(3,321,376)	1,947,317	50,882,051
Loss for the period	-	(3,545,395)	-	(3,545,395)
Total comprehensive loss for the period	-	(3,545,395)	-	(3,545,395)
Transactions by owners, recorded directly in equity				
Issue of shares	6,872,104	-	-	6,872,104
Share issuance costs	-	-	-	-
Share-based payments	-	-	568,715	568,715
At 30 June 2009	59,128,214	(6,866,771)	2,516,032	54,777,475

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

1. Reporting entity

Exco Resources Limited (the “Company” or “Exco”) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended, 30 June 2010 comprise the Company and its subsidiaries (together referred to as “the Group” and individually as “Group Entities”) and the Group’s interest in associates and jointly controlled entities. The Group primarily is involved in the production of gold and minerals exploration.

The consolidated annual financial report of the Group as at, and for the year ended, 30 June 2010 is available upon request from the Company’s registered office at Level 2, 8 Colin Street, West Perth WA 6005, or at:

www.excoresources.com.au.

2. Basis of preparation

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 30 September 2010.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. The methods used to measure fair values are discussed further in note 4.

c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the Company and its controlled entities.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 3(d) – Exploration and evaluation expenditure

Note 3(e) – Mine and development properties

Note 3(g) – Impairment

Note 3(h)(ii) – Share-based payment transactions

Note 3(l) – Utilisation of tax losses

Note 3(o) – Closure and rehabilitation

Management discussed with the board the development, selection and disclosure of the Group’s critical accounting policies and estimates and the application of these policies, estimates and judgements. The estimates and judgements that may have a significant impact on the carrying amount of assets and liabilities are discussed below.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group, except as explained in the following notes which address changes on the application of accounting policies for the first time:

- 3(c)(iii) Derivative financial instruments;
- 3(e) Mine properties and development
- 3(i) Revenue
- 3(k) Lease payments
- 3(o) Closure and rehabilitation
- 3(r) Inventory
- 3(s) Segment reporting
- 3(t) Presentation of financial statements

Certain comparative amounts have been reclassified to conform with the current year's presentation.

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements includes the Group's share of the income and expenses and equity movements of equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Joint ventures

Jointly controlled assets

The interests of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Joint venture operations

Interests in incorporated joint ventures are brought into account using the proportionate consolidation method. Under this method the proportionate interests in assets, liabilities, income and expenses of the joint venture entity are incorporated in the consolidated financial statements under appropriate headings.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates' net profit' accounts.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the Group's interest in such entities is disposed of.

b) Foreign currency

Transactions in foreign currencies are translated to Australian dollars at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised costs in Australian dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the exchange rate at the date that the fair value was determined.

c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(k).

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Share capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its commodity price exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative instruments held for cash flow hedging are recognised in profit or loss.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

d) Exploration and Evaluation

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

- sufficient data exists to determine technical feasibility and commercial viability, and
- facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy in note 3 (g)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to Mine and development properties.

e) Mine and development properties

(i) Mine and development properties

Mine and development properties represents the acquisition cost and/or accumulated exploration, evaluation and development expenditure in respect of areas of interest in which production has commenced. Mine development costs are deferred until commercial production commences. When commercial production is achieved mine development is transferred to mine properties, at which time it is amortised on a unit of production basis over the total estimated resources related to this area of interest.

Development expenditure is capitalised as either a tangible or intangible asset depending on the nature of the costs incurred.

Development expenditure includes the following:

- Reclassified exploration and evaluation assets;
- Direct costs of construction including plant and equipment and related infrastructure costs;
- Pre-production stripping costs; and
- An appropriate allocation of overheads and borrowing costs incurred during the construction phase.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

Open pit waste removal costs incurred in the development of a mine before production commences are capitalised as part of the mine development costs, which are subsequently amortised over the life of the open pit resource, once transferred to mine properties.

The Group applies the units of production method for amortisation of its mine properties, which results in an amortisation charge proportional to the depletion of the anticipated remaining life of mine production. These calculations require the use of estimates and assumptions in relation to reserves and resources, metallurgy and the complexity of future capital development requirements. These estimates and assumptions are reviewed annually, changes to these estimates and assumptions may impact the amortisation charge in the income statement and asset carrying values, which would be adjusted if appropriate on a prospective basis.

(ii) Production waste removal

All costs of production waste removal (stripping) from open pit mines are accumulated, and deferred on the statement of financial position as part of the total of mine properties and mine development. These costs include the costs of drilling, blasting, loading and haulage of waste rock from the open pit to the waste pile. The costs are predominantly in the nature of payments to mining, blasting and other contracting companies or costs of internal labour and materials used in the process. These costs are amortised on a units-of production basis in accordance with the amortisation policy set out for mine development above.

Amortisation of production waste removal costs is included in cost of goods sold in the statement of comprehensive income. Cash spent on waste removal is included in cash flows from investing activities in the statement of cash flows. As waste removal activities are an integral part of the mining operation, the deferred stripping asset is grouped with the other assets at the mine site or other level which represents the lowest level of separately identifiable cash flows in order to assess recoverable amount.

(iii) Reserves and resources

Resources are estimates of the amount of gold that can be economically extracted from the Group's mine properties. In order to calculate resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, future capital requirements short and long term commodity prices and exchange rates.

Estimating the quantity and/or grade of resources requires the size, shape and depth of ore bodies to be determined by analysing geological data. This process may require complex and difficult geological judgments and calculations to interpret the data.

The Group determines and reports ore resources under the Australian Code of Reporting for Mineral Resource and Ore Reserves December 2004, known as the JORC Code. The JORC Code requires the use of reasonable assumptions to calculate resources. Due to the fact that economic assumptions used to estimate resources change from period to period, and geological data is generated during the course of operations, estimates of resources may change from period to period. Changes in reported resources may affect the Group's financial results and financial position in a number of ways, including:

- Asset carrying values may be impacted due to changes in estimates of future cash flows;
- Amortisation charged in the income statement may change where such charges are calculated using the units of production basis;
- Decommissioning, site restoration and environmental provisions may change due to changes in estimated resources after expectations about the timing or costs of these activities change; and
- Recognition of deferred tax assets, including tax losses.

(iv) Depreciation

Depreciation of development assets associated with the White Dam mine is recognised in the profit and loss on a units of production basis as this is considered the best approach in a heap leach operation where production quantities vary materially over the life of the operation.

EXCO RESOURCES LIMITED

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f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses as described in Note 3(g).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item or property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the income statement. When re-valued assets are sold, the amounts included in the revaluation reserve are transferred to accumulated losses.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the items if it is probable that the future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|-----------------------|-----------------|
| • property | not depreciated |
| • plant and equipment | 5-12 years |
| • motor vehicles | 5-10 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

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(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Employee benefits

(i) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

(ii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Superannuation plan

The Company and its controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are incurred.

i) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Group has financed its participation in the White Dam Gold Production Joint Venture by way of a gold repayment facility from Barclays Capital PLC. The facility has been recognised as deferred revenue and is presented as liability in the balance sheet. Revenue is recognised in the profit and loss when Exco delivers gold under the facility agreement.

j) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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k) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through the income statement, changes in fair value of the derivative instruments held for hedging and impairment losses recognised on financial assets.

l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future,
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group with effect from 1 April 2004. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Exco Resources Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

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n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

o) Closure and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Group's environmental policies. Provisions for the cost of each closure and rehabilitation programme are recognised when the Group has a present obligation and it is probable that rehabilitation/restoration costs will be incurred at a future date, which generally arises at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly.

Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure, in connection with disturbances, as at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements. Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

When provisions for closure and rehabilitation are initially recognised, to the extent that it is probable that future economic benefits associated with the rehabilitation, decommissioning and restoration expenditure will flow in the entity, the corresponding cost is capitalised as an asset. The capitalised cost of closure and rehabilitation activities is recognised in exploration evaluation and mine properties and property, plant and equipment as appropriate and depreciated/amortised accordingly.

The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance expenses. Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, where it is probable that future economic benefits will flow to the entity, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

- revisions to estimated reserves, resources and lives of operations
- regulatory requirements and environmental management strategies
- changes in the estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates
- movements in interest rates affecting the discount rate applied; and
- the timing of cash flows.

At each reporting date the rehabilitation and restoration provision is remeasured to reflect any of these changes.

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p) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash for the purpose of the statement of cash flows.

q) Trade and other payables

Trade and other payables are stated at their amortised cost.

r) Inventory

Inventories of broken ore, stacked ore, gold in circuit and gold bullion are physically measured or estimated and valued at the lower of cost and net realisable value.

The cost comprises direct materials, labour and transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure based on weighted cost incurred during the period in which such inventories were produced.

Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated cost necessary to perform the sale. Inventories of consumable supplies and spare parts are expected to be used in production are valued at cost. Obsolete or damaged inventories of such items are valued at net realisable value.

Insurance and capital (or recirculating) spare parts are capitalised and depreciated over the same remaining life as the equipment with which they are associated.

s) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

t) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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u) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of the initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing these financial statements:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group not yet determined the potential effect of the standard;
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements;
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements;
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements; and
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumption made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

b) Share-based payment transactions

The fair value of employee stock options is measured using a binomial valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

c) Derivative financial instruments

A derivative is initially recognised at fair value on the date of derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market price at the reporting date.

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The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each reporting date.

The fair value of forward foreign exchange and commodity contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the reporting date.

5. Financial risk management

a) Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and the processes for measuring and managing risk, and the management of capital.

With the development of the White Dam Production Joint Venture, the Group's future revenues may be exposed to commodity price and exchange rate fluctuations. The Group may from time to time enter into derivative instruments to manage this exposure. Exposure limits will be reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from gold sales to customers.

Credit risks relating to trade receivables are managed by maintaining strong relationships with our quality clients, ensuring Exco only trades with creditworthy parties (assessed at the time of contract acceptance), and constantly reviewing the ageing.

Credit risks related to cash and cash equivalents are managed by placing surplus working capital with financial institutions of appropriate credit worthiness, currently that being the Group's bankers.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	30-June-10	30-June-09
	\$	\$
Cash and cash equivalents	10,086,715	10,800,317
Financial derivative assets	23,285	-
Trade and other receivables	3,834,022	324,776
	13,944,022	11,125,093

Impairment losses

None of the Group's receivables are past due (2009: nil).

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows. At the balance sheet date the Group did not have any external borrowings. The following are the contractual maturities of financial liabilities:

Consolidated 30-Jun-10	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	6,406,777	(6,406,777)	(6,406,777)	-	-
<i>Derivatives</i>					
Gold forward contracts					
Outflow	1,640,969	(1,640,969)	(858,418)	(664,093)	(118,458)
Gold options					
Outflow	42,382	-	-	-	-
Inflow	(23,285)	-	-	-	-
	8,066,843	(8,047,746)	(7,265,195)	(664,093)	(118,458)
30-Jun-09					
Trade and other payables	882,095	(882,095)	(882,095)	-	-
	882,095	(882,095)	(882,095)	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's revenue is exposed to gold price fluctuations. The Group has entered into gold forward sales contracts and gold put options to manage its exposure to movements in the gold price. The carrying value of the Group's derivative financial instruments as at the reporting date is as follows:

Financial Derivative Instruments	30-June-10 \$	30-June-09 \$
Financial derivative assets		
<i>Current</i>		
Gold put options	23,285	-
	23,285	-
Financial derivative liabilities		
<i>Current</i>		
Gold forward sale contracts	(1,522,511)	-
	(1,522,511)	-
<i>Non-current</i>		
Gold put options	(42,382)	-
Gold forward sale contracts	(118,458)	-
	(160,840)	-
	(1,683,351)	-
	(1,660,066)	-

The Group enters into gold forward sales contracts to effectively fix the cash flows receivable on a proportion of the Group's future gold sales. Gold forward sales contracts are not designated into hedge relationships and therefore fair value adjustments on these contracts are recognised in the consolidated statement of comprehensive income.

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Gold forward sales

The following table details the gold forward sales contracts outstanding as at the reporting date for the Group.

	2010			2009		
	Ounces	Weighted average price/oz	Fair Value Liability	Ounces	Weighted average price	Fair Value
Gold forward sales contracts						
Maturing						
Less than 3 months	7,800	1,399	605,070	-	-	-
More than 3 and less than 12 months:	3,075	1,216	917,441	-	-	-
More than 12 months	375	1,216	118,458	-	-	-
	11,250	1,343	1,640,969	-	-	-

Gold put options

During the reporting period the Group entered into put options for a portion of its gold production in order to manage its exposure to gold price risk. The put options allow the Group to maintain full exposure to any upwards movement in the gold price whilst providing it the right, but not the obligation, to deliver gold at the stated strike price.

The following table details the gold put options outstanding as at the reporting date for the Group.

	2010			2009		
	Ounces	Strike price	Fair Value	Ounces	Strike average price	Fair Value
Gold put options						
Maturing						
Less than 1 Year	14,938	1,183	(23,285)	-	-	-
Between 1 – 2 years	14,000	1,250	42,382	-	-	-
	28,938	1,216	19,097	-	-	-

Sensitivity analysis

The following table summarises the sensitivity of derivative financial assets and derivative financial liabilities held at the balance sheet date to movement in the gold price at that time with all other variables held constant. The 10% movement for gold is based on reasonably possible changes over a financial year using an observed range of historical rates for the preceding five years.

Post tax gain/(loss)	Impact on profit	
	2010	2009
Gold + 10%	(1,189,467)	-
Gold – 10%	1,187,947	-

e) Currency risk

The Group and the Company is not exposed to currency risk and at the balance sheet date the Group held no financial assets or liabilities which are exposed to foreign currency risk.

f) Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group does not use derivatives to mitigate these exposures.

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The Group adopts a policy ensuring that as far as possible it maintains excess cash and cash equivalents in short term deposits at interest rates maturing over 90 days rolling periods.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	30-June-10	30-June-09
Variable rate instruments:	\$	\$
Financial assets*	10,086,715	10,800,317
	10,086,715	10,800,317

*The interest-bearing financial assets comprise cash and cash equivalents.

Fair value sensitivity analysis for fixed rate instruments

The Group does not have any fixed rate instruments.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2010				
Variable rate instruments – Cash and cash equivalents	100,867	(100,867)	-	-
30 June 2009				
Variable rate instruments – Cash and cash equivalents	108,003	(108,003)	-	-

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30-June-10		30-June-09	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Gold option contracts	23,285	23,285	-	-
Gold forward sale contracts	-	-	-	-
	23,285	23,285	-	-
Assets carried at amortised cost				
Loans and receivables	3,834,022	3,834,022	324,776	324,776
Cash and cash equivalents	10,086,715	10,086,715	10,800,317	10,800,317
	13,920,737	13,920,737	11,125,093	11,125,093
Liabilities carried at fair value				
Gold option contracts	42,382	42,382	-	-
Gold forward sale contracts	1,640,969	1,640,969	-	-
	1,683,351	1,683,351	-	-
Liabilities carried at amortised costs				
Trade and other payable	6,406,777	882,095	6,406,777	882,095
	6,406,777	882,095	6,406,777	882,095

The basis for determining fair values is disclosed in note 4.

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Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	23,285	-	23,285
	-	23,285	-	23,285
Derivative financial liabilities	-	1,683,351	-	1,683,351
	-	1,683,351	-	1,683,351

g) Commodity price risk

The Group is exposed to gold price fluctuations; the effect of the fluctuation is discussed in detail earlier in this note in market risks disclosures (d).

h) Capital and liquidity management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, by maintaining a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure while ensuring liquidity, the Group may return capital to shareholders, issue new shares or sell assets to provide cash flow.

The Group is continuing to focus on raising sufficient funds through equity to fund exploration and evaluation activities. With the move to production during the year its activities have been financed, and will be financed through during the coming year, in part, by cash flows from the White Dam operation.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. Revenue

	30-June-10	30-June-09
	\$	\$
Gold sales	7,021,948	-
Silver sales	369	-
	7,022,317	-

The Group's two most significant customers, the Perth Mint Australia and Barclays Capital PLC (refer note 21) represent 100% of the Group's total revenues.

EXCO RESOURCES LIMITED

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Notes to the consolidated financial accounts

7. Other and financial income/expense

a) Other income

	30-June-10	30-June-09
	\$	\$
Gain on disposal of property, plant and equipment	17,025	6,519
Gain on disposal of interest in tenements	256,704	395,091
Other income	6,726	5,398
	280,455	407,008

b) Financial income

	30-June-10	30-June-09
	\$	\$
Interest income	511,574	476,169

c) Financial expense

	30-June-10	30-June-09
	\$	\$
Fair value of metal options and forward contracts loss	1,660,066	-
Fair value movement on option contracts	2,424,521	-
	4,084,587	-

During the year ending 30 June 2010, the Group entered into metal (gold) forward sale contracts and metal (gold) put option contracts. Total premium on the option contracts for the year was \$2,424,521 (2009: nil) of which \$1,259,821 was settled in cash during the period. As at 30 June 2010 the mark to market value of option contracts resulted in a positive net position of \$23,285 (2009: nil) while mark to market value of forward sales contracts was in a loss position of \$1,683,351 (2009: nil).

Derivatives comprise

a) the forward sale contracts for:

- i.) 3,750 oz of gold at a price of A\$1,216.34 per ounce for the period September 2010 to June 2011; and,
- ii.) 3,750 oz of gold at a price of A\$1,378.94 per ounce and 3,750 oz of gold at a price of A\$1,432.75 on a spot deferred basis with delivery expected within the next six months; and,

b) put option contracts for:

- i.) 9,940 oz of gold at a price of A\$1,100 per ounce for the period July 2010 to May 2011; and,
- ii.) 19,000 oz of gold at a price of A\$1,250 per ounce for the period May 2011 to November 2011

8. Cost of goods sold

	30-June-10	30-June-09
	\$	\$
Depreciation of mine properties	(i) 5,702,291	-
Amortisation of mine properties	(i) 1,000,791	-
Amortisation of rehabilitation asset	(i) 198,898	-
Production costs	5,488,799	-
Costs deferred as inventory	(7,500,150)	-
	4,890,629	-

(i) Reconciliation of movement in mine properties including the depreciation charges is disclosed in note 19.

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Notes to the consolidated financial accounts

9. Loss per share

Basic loss per share

The calculation of basic loss/profit per share for the year ended 30 June 2010 was based on the losses attributable to ordinary shareholders of \$5,141,296 (year ended 30 June 2009: \$3,545,395 loss) and a weighted average basic and dilutive number of ordinary shares outstanding during the year ended 30 June 2010 of 312,081,788 and 312,081,788 respectively (year ended 30 June 2009: 255,077,324 and 259,007,324 respectively), calculated as follows:

	30-June-10 \$	30-June-09 \$
Loss attributable to ordinary shareholders		
Loss for the period	(5,141,296)	(3,545,395)
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	284,733,625	254,083,625
Effect of shares issued during the period	27,348,163	923,699
Weighted average number of ordinary shares at 30 June	312,081,788	255,007,324
Weighted average diluted number of ordinary shares at 30 June	312,081,788	259,007,324
Loss per share		
Basic loss per share (cents)	(1.65)	(1.39)
Diluted loss per share (cents)	(1.65)	(1.39)

10. Employee expenses

	30-June-10 \$	30-June-09 \$
Consulting fees and wages	905,167	647,443
Superannuation	55,094	36,796
Leave provisions	483	13,918
Share-based payment expense	78,580	234,218
Other personnel costs	95,586	119,030
	1,134,910	1,051,405

11. Professional and corporate expenses

	30-June-10 \$	30-June-09 \$
Audit fees - KPMG	95,810	67,159
Tax services fees - KPMG	-	10,000
Other accounting fees - KPMG	-	10,000
	95,810	87,159
Other professional and corporate expenses		
Tax services	14,500	3,400
Legal services	83,286	49,682
Other corporate expenses	290,063	326,407
	387,849	379,489
Total professional and corporate expenses	483,659	466,648

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Notes to the consolidated financial accounts

12. Impairment of equity accounted investment

	30-June-10	30-June-09
	\$	\$
Black Rock Minerals Pty Ltd (Exco's share 34.5%)		
Impairment of investment	51,617	500,000
	51,617	500,000

During the year ended 30 June 2010, the Group invested further \$51,617 in Black Rock Minerals Pty Ltd which brings the total investment to \$551,617 (2009: \$500,000).

In accordance with the accounting policy disclosed in Note 3 (g)(ii), the Directors review the carrying value of the Company's investment in Black Rock Minerals Pty Ltd at each reporting date. Black Rock Minerals Pty Ltd is an unlisted Australian-based exploration company. At 30 June 2010 the exploration outcomes resulting from the expenditure incurred by Black Rock Minerals Pty Ltd had not yielded results allowing a reasonable assessment regarding the existence or otherwise of economically recoverable reserves. Furthermore, at that time the Company had not committed any funds for future exploration costs. As a result the Directors determined the value of Black Rock Minerals Pty Ltd to be nil.

	30-June-10	30-June-09
	\$	\$
Black Rock Minerals Pty Ltd		
Investment at cost	551,617	500,000
Impairment of investment	(551,617)	(500,000)
	-	-

The Group's share of profit in its equity accounted investee not recognised in the consolidated financial statements for the year was \$319 (2009: \$3,679).

Share of associate's capital commitments contracted but not provided for or payable:

Within one year	5,192	10,815
	5,192	10,815

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Notes to the consolidated financial accounts

13. Income tax expense

	30-June-10	30-June-09
	\$	\$
Current tax expense		
Current period	-	-
Deferred tax expense		
Origination and reversal of temporary differences		
Carried forward tax losses recognised	-	-
Income tax expense from continuing operations	-	-
Total income tax expense	-	-
Numerical reconciliation between tax expense and pre-tax accounting loss		
Profit/(Loss) for the period excluding income tax	(5,141,296)	(3,545,395)
Income tax using the Company's domestic tax rate of 30%	(1,542,389)	(1,063,619)
Tax effect of permanent differences	107,126	72,878
Tax effect of movement in temporary differences	1,435,263	990,741
Income tax expense/(benefit)	-	-
Tax assets and liabilities		
Recognised deferred tax assets and liabilities		
<i>Recognised deferred tax liabilities</i>		
Exploration and development expenditure	(12,213,966)	(12,822,453)
Mine development expenditure	(3,175,922)	-
Accrued income	(14,064)	(4,700)
	(15,403,952)	(12,827,153)
<i>Recognised deferred tax assets</i>		
Provisions and accruals	310,585	71,277
Derivatives	498,020	-
Tax value of losses recognised	14,595,347	12,755,875
	15,403,952	12,827,153

Tax Losses

At 30 June 2010, the consolidated group has \$16,720,330 (2009:\$13,507,134) of tax losses (at 30%) that are available indefinitely for offset against future taxable profits of the Company, including the following amounts not recognised at year end:

	30-June-10	30-June-09
	\$	\$
Unrecognised deferred tax assets	2,124,983	751,259
Tax value of losses unrecognised	2,124,983	751,259

The tax benefits of the above deferred tax assets will only be obtained if:

- the consolidated group derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised
- the consolidated group continues to comply with the conditions for deductibility imposed by law; and
- no changes in income tax legislation adversely affect the consolidated group in utilising the benefits.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

14. Cash and cash equivalents

	30-June-10	30-June-09
	\$	\$
Cash on hand and at bank	3,283,562	59,699
Cash held in joint ventures	462,311	4,007
Deposits at call	6,340,842	10,736,611
	10,086,715	10,800,317

15. Trade and other receivables

	Note	30-June-10	30-June-09
		\$	\$
Current			
Trade debtors		1,481,991	13,588
Prepayments		299,158	47,301
Other receivables		842,622	-
		2,623,771	70,025
Non-current			
Security deposits		1,210,251	254,751
		1,210,251	254,751

16. Inventories

	Note	30-June-10	30-June-09
		\$	\$
Materials and supplies - at cost		127,092	-
Ore stocks - at cost		5,567,761	-
Gold in circuit - at cost		644,006	-
Gold bullion - at cost		1,288,383	-
		7,627,242	-

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Notes to the consolidated financial accounts

17. Property, plant and equipment

	30-June-10	30-June-09
	\$	\$
At cost	2,097,756	2,449,565
Accumulated depreciation	(638,649)	(514,186)
Total carrying value at 30 June	1,459,107	1,935,379

	Property	Motor Vehicles	Plant and Equipment	Total
	30-June-10	30-June-10	30-June-10	30-June-10
Reconciliation of movement	\$	\$	\$	\$
At cost				
At 1 July	989,385	316,417	1,143,763	2,449,565
Acquisitions	-	148,070	31,721	179,791
Disposals	-	(107,982)	(23,618)	(131,600)
Transfer to development	-	-	(400,000)	(400,000)
At 30 June	989,385	356,505	751,866	2,097,756
Accumulated depreciation				
At 1 July	-	(121,778)	(392,408)	(514,186)
Depreciation expense	-	(76,798)	(132,345)	(209,143)
Disposals	-	63,973	20,707	84,680
At 30 June	-	(134,603)	(504,046)	(638,649)
Carrying amount at 30 June	989,385	221,902	247,820	1,459,107

	30-June-09	30-June-09	30-June-09	30-June-09
Reconciliation of movement	\$	\$	\$	\$
At cost				
At 1 July	989,385	299,633	858,764	2,147,782
Acquisitions	-	16,784	293,448	310,232
Disposals	-	-	(8,449)	(8,449)
At 30 June	989,385	316,417	1,143,763	2,449,565
Accumulated depreciation				
At 1 July	-	(63,433)	(231,214)	(294,647)
Depreciation expense	-	(58,345)	(164,732)	(223,077)
Disposals	-	-	3,538	3,538
At 30 June	-	(121,778)	(392,408)	(514,186)
Carrying amount at 30 June	989,385	194,639	751,355	1,935,379

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Notes to the consolidated financial accounts

18. Exploration and evaluation expenditure

	30-June-10	30-June-09
	\$	\$
Carrying value of exploration and evaluation		
In entities other than joint ventures	40,149,024	42,193,756
In joint ventures	564,196	547,754
Carrying value*	40,713,220	42,741,510
*Costs carried forward in respect of areas of interest held in the exploration and evaluation phases.		
Movement in exploration and evaluation expenditure		
At 1 July	42,741,510	29,009,626
Expenditure incurred during the year	4,852,026	12,636,045
Expenditure reclassified as development	(6,005,693)	-
Movement in expenditure in joint ventures	27,891	(23,521)
Exploration expenditure written off	(759,218)	(326,473)
Interests acquired during the year	-	3,450,742
Interests disposed of during the year	(143,296)	(2,004,909)
Carrying amount at 30 June	40,713,220	42,741,510

The property in nature represents intangible exploration and evaluation assets. Refer to the significant accounting policies 3(d) for a detailed explanation of exploration and evaluation assets.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas at an amount greater than or equal to the carrying value.

19. Mine and development properties

	30-June-10	30-June-09
	\$	\$
Carrying value of mine and development properties		
At cost:		
In entities other than joint ventures	5,361,468	-
In joint ventures	16,604,523	-
	21,965,991	
Accumulated amortisation	(6,901,980)	-
Carrying amount at 30 June	15,064,011	-
Movement in mine properties and development		
At 1 July	-	-
Expenditure incurred during the year	14,758,919	-
Expenditure reclassified from property, plant and equipment	400,000	-
Capitalised exploration recognised as development expenditure	6,005,693	-
Depreciation of development properties (i)	(5,702,291)	-
Amortisation of capitalised production waste (i)	(1,000,791)	-
Capitalised provision for rehabilitation costs	801,379	-
Amortisation of capitalised rehabilitation costs (i)	(198,898)	-
Carrying amount at 30 June	15,064,011	-

(i) Total amount of amortisation and depreciation included in cost of goods sold for the year ended 30 June 2010 was \$6,901,980 (2009: nil) (Note 8).

There are no other material items arising from exploration, evaluation and mining assets which give rise to liabilities, income and expenses or operating cash flows.

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Notes to the consolidated financial accounts

20. Trade and other payables

	30-June-10	30-June-09
	\$	\$
Trade creditors	857,226	230,956
Accrued expenses	1,323,086	227,805
Other payables	83,148	422,437
Joint ventures payables and accruals	4,143,317	897
	6,406,777	882,095

21. Deferred revenue

	30-June-10	30-June-09
	\$	\$
Current		
At 1 July	-	-
Deferred revenue received during the year	4,882,089	-
Deliveries made during the year	(2,466,360)	-
	2,415,729	-
Non-current		
At 1 July	-	-
Deferred revenue received during the year	7,117,911	-
Deliveries made during the year	-	-
	7,117,911	-
Total deferred revenue at 30 June	9,533,640	-

During the year to 30 June 2010, the Group, together with its joint venture partner Polymetals Group Pty Ltd, completed the arrangements for a Gold Repayment Facility (GBF) of \$16 million for the construction and commissioning of the White Dam Gold Project Joint Venture (WDGPJV) in South Australia with Barclays Capital. As part of the GBF terms, Exco has granted a fixed and floating security over the assets of the WDGPJV. The Group's 75% of the facility totalling \$12 million was recognised as deferred revenue. The Group's facility was provided as a prepayment for delivery of 15,687 oz of gold. This balance will be reduced and the revenue recognised as the gold is delivered, in accordance with the following delivery schedule:

WDGPJV Delivery Schedule – 75%	Total Volume (oz)	Delivered during the year (oz)	Balance at 30 June 2010
First delivery – due January 2011	6,382	(3,224)	3,158
Second delivery – due June 2011	6,382	-	6,382
Third delivery – due August 2011	2,923	-	2,923
	15,687	(3,224)	12,463

Mandatory prepayment conditions apply. Under these conditions at 30 June 2010 Exco had pre-delivered 3,224 ounces against its first delivery commitment.

22. Provisions

	30-June-10	30-June-09
	\$	\$
Current		
Employee benefits	135,905	142,412

This provision sets out the statutory annual leave provision for the Group's employees.

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Notes to the consolidated financial accounts

22. Provisions (continued)

<i>Non-current</i>	30-June-10	30-June-09
Closure and rehabilitation	\$	\$
Opening balance at 1 July	-	-
Recognition of rehabilitation and restoration asset	801,379	-
Unwinding of discount	32,055	-
	833,434	-

23. Contributed equity

	Number of shares		Amount (\$)	
	30-June-10	30-June-09	30-June-10	30-June-09
Ordinary shares on issue	328,565,892	284,733,625	71,419,468	60,793,063
Share issuance cost	-	-	(2,450,541)	(1,664,849)
Ordinary shares on issue net of cost	328,565,892	284,733,625	68,968,927	59,128,214
Movement in ordinary shares				
Balance at 1 July	284,733,625	254,083,625	59,128,214	52,256,110
<i>Issue of shares:</i>				
Exercise of options	2,500,000	-	500,000	-
Shares issued for cash	41,332,267	30,650,000	10,126,405	7,202,750
Transaction costs	-	-	(785,692)	(330,646)
Balance at 30 June	328,565,892	284,733,625	68,968,927	59,128,214

Movement in Options over ordinary shares on issue – unlisted options

	Number of Options	
	30-June-10	30-June-09
Balance at 1 July	14,500,000	13,000,000
Employee incentive options granted	400,000	1,500,000
Options granted in settlement of financing costs	4,500,000	-
Options granted in settlement of capital raising fees	1,650,000	-
Exercise of options	(2,500,000)	-
Options expired	(7,900,000)	-
Balance at 30 June	10,650,000	14,500,000

Options over ordinary shares on issue – unlisted options

Outstanding options on 30 June 2010		
Number	Exercise Price	Expiry
1,500,000	\$0.25	30/08/2010
1,500,000	\$0.40	30/08/2011
1,500,000	\$0.40	31/08/2012
4,500,000	\$0.28	10/09/2012
1,650,000	\$0.273	21/10/2012
10,650,000		

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Notes to the consolidated financial accounts

24. Reserves

	30-June-10	30-June-09
	\$	\$
Share-based payments reserve*	3,253,635	2,516,032
	3,253,635	2,516,032
Movement in reserves		
Balance at 1 July	2,516,032	1,947,317
Recognised during the year	737,603	568,715
	3,253,635	2,516,032

*Refer to note 30 for terms and conditions of options granted during the year ended 30 June 2010.

25. Parent entity

As at and throughout the financial year ended 30 June 2010 the parent company of the Group was Exco Resources Limited.

	30-June-10	30-June-09
	\$	\$
Results of the parent entity		
Loss for the period	(3,513,398)	(3,545,395)
Other comprehensive income	-	-
Total comprehensive income for the period	(5,668,604)	(3,545,395)
Financial position of parent entity at year end		
Current assets	7,433,265	10,844,199
Total assets	63,068,557	55,469,585
Current liabilities	1,226,165	692,110
Total liabilities	1,226,165	692,110
Net assets	61,842,393	54,777,475
Total equity of the parent entity comprising of:		
Share capital	68,968,927	59,128,214
Option reserve	3,253,635	2,516,032
Accumulated losses	(10,380,169)	(6,866,771)
Total equity	61,842,393	54,777,475

	30-June-10	30-June-09
	\$	\$
Parent entity commitments		
(i) Exploration expenditure		
<i>Within one year:</i>		
Leases and minimum expenditure	82,928	94,139
Farm-in commitments	15,665	-
	98,593	94,139
(ii) Operating leases		
<i>Within one year</i>	125,432	83,777
<i>Later than one and no later than five years</i>	-	99,898
<i>Later than 5 years</i>	-	-
	125,432	183,675
	224,025	277,814

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Notes to the consolidated financial accounts

26. Commitments

At 30 June 2010 the Group and has the following commitments:

	30-June-10	30-June-09
	\$	\$
(i) Exploration expenditure		
<i>Within one year:</i>		
Leases and minimum expenditure	123,957	145,206
Joint venture commitments - White Dam JV	31,042	35,319
Farm-in commitments	15,665	126,000
<i>Later than one and no later than five years:</i>		
Joint venture commitments - White Dam JV	-	-
	170,664	306,525
(ii) Operating leases		
<i>Within one year</i>	125,432	83,777
<i>Later than one and no later than five years</i>	-	99,898
<i>Later than 5 years</i>	-	-
	125,432	183,675
	296,096	490,200

(i) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform exploration work to meet the minimum expenditure requirements specified by various State governments. These commitments are discretionary for the Group and are subject to renegotiation when application for a mining lease is made and at other times. These commitments are not provided for in the financial report.

(ii) Leases as lessee

The Group leases an office under an operating lease. The lease runs for 5 years with a 2 year renewal option. Lease payments are increased annually with the movement in CPI. The lease commenced on 1 July 2006.

27. Group entities

	Country of Incorporation	Percentage of Equity Interest held by the Group	
		2010	2009
Parent entity			
Exco Resources Limited			
Subsidiaries		%	%
Exco Resources (WA) Pty Ltd.	Australia	100	100
Mitchell River Exploration Pty Ltd.	Australia	100	100
Exco Operations (SA) Ltd.	Australia	100	100
Eliza Creek Mines Ltd.	Australia	100	100
Exco Cloncurry Operations Pty Ltd.	Australia	100	100
Boomarra Mines Pty Ltd.	Australia	100	100
Exco Resources (SA) Pty Ltd.	Australia	100	100
Exco Resources (QLD) Pty Ltd.	Australia	100	100

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Notes to the consolidated financial accounts

28. Joint Ventures

As at 30 June 2010, the Group has interests in three joint ventures, details of which are included below. Joint ventures are accounted for using proportionate consolidation method as described in note 3(a)(ii).

a) Toolebuc Resources Pty Ltd.

On 14 February 2008 Exco Resources Limited. (Exco) and Paradigm Metals Ltd. (Paradigm) entered into an agreement to jointly undertake exploration on the Exco and Paradigm tenements in the area of mutual interest and have incorporated a company, Toolebuc Resources Pty Ltd. (Toolebuc), for this purpose.

During the financial year Toolebuc issued further 20,000 shares to each shareholder at \$1 per share bringing the Company's total investment in Toolebuc at 30 June 2010 to \$580,000 (2009: \$560,000).

Toolebuc Resources Pty Ltd. is a company incorporated in Australia with the principal activity being exploration of mineral resources. The investment in Toolebuc Resources is carried at cost in the balance sheet of the Company.

The consolidated financial statements incorporate 50% of the assets and liabilities of the Toolebuc Resources Pty Ltd. under following classifications:

	30-June-10 [50%] \$	30-June-09 [50%] \$
Current assets		
Cash and cash equivalents	7,327	4,007
Trade and other receivables	8,972	8,749
Total current assets	16,299	12,756
Non-current assets		
Exploration and evaluation expenditure	564,196	547,751
Total non-current assets	564,196	547,751
Total assets	580,495	560,507
Current liabilities		
Trade and other payables	495	507
Total current liabilities	495	507
Total liabilities	495	507
Net assets	580,000	560,000

b) White Dam Gold Production Joint Venture

During the year ended 30 June 2010, the Group contributed \$17,568,471 (2009: nil) to the White Dam Gold Production Joint Venture. The income from the sale of gold produced by the White Dam Gold Production Joint Venture is recorded by the venturers. Total costs incurred by the Joint Venture attributable to the owners of the Company were \$3,733,885 (2009: nil).

[75%]	30-June-10 \$	30-June-09 \$
Current assets		
Cash and cash equivalents	454,984	-
Inventory	127,092	-
Trade and other receivables	791,304	-
Total current assets	1,373,380	-
Non-current assets		
Mine and development properties	16,604,523	-
Total non-current assets	16,604,523	-
Total assets	17,977,903	-
Current liabilities		
Trade and other payables	4,143,317	-
Total current liabilities	4,143,317	-

EXCO RESOURCES LIMITED

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Notes to the consolidated financial accounts

c) White Dam Gold Exploration Joint Venture

During the year ended 30 June 2010 the Group transferred 25% of its interest in the White Dam exploration tenements to Polymetals Group Pty Ltd, upon signing of the White Dam Exploration Joint Venture Agreement documentation.

The Group's commitments in regard to the White Dam Exploration Joint Venture are included in note 25.

29. Notes to the statements of cash flows

Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities:

	30-June-10	30-June-09
	\$	\$
Loss after income tax	(5,141,296)	(3,545,395)
<i>Add/(less) items classified as investing activities:</i>		
Fair value movement of forward contracts	1,660,066	-
Loss/(Profit) on sale of non-current assets	(273,729)	741,147
Impairment expense	51,617	500,000
Amortisation and depreciation of mine properties	6,901,980	-
Depreciation	209,143	223,077
Exploration expense	771,218	326,473
<i>Add/(less) non-cash items:</i>		
Doubtful debt expense	-	16,179
Share-based payments	348,580	234,218
Net cash provided by/(used in) operating activities before change in assets and liabilities	4,527,579	(1,504,301)
(Increase)/Decrease in receivables and prepayments	(2,553,746)	490,363
(Increase) in inventory	(7,627,242)	-
Increase in deferred revenue	9,533,640	-
Increase/(Decrease) in accounts payable and provisions	1,323,750	(59,016)
Net cash provided by/(used in) operating activities	5,203,981	(1,072,954)

30. Related party disclosures

Details of key management personnel

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Barry Sullivan – Non-executive chairman
Michael Anderson - Managing director
Alasdair Cooke – Executive director
Peter Reeve – Non-executive director
Craig Burton – Non-executive director (resigned 30 March 2010)

Executives

Bruce McLarty – General Manager – Commercial
Geoff Laing – General Manager – Project/Corporate Development
Steve Konecny – Exploration Manager
Eamon Byrne – Chief Financial Officer and Company Secretary

There are no other persons within the Group who are classified as key management personnel.

Key management personnel compensation disclosures

The key management personnel compensation is as follows:

EXCO RESOURCES LIMITED

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Notes to the consolidated financial accounts

	30-June-10	30-June-09
	\$	\$
Short-term employee benefits	1,573,928	1,473,610
Post-employment benefits	125,450	107,689
Share-based payments	136,328	450,235
	1,835,706	2,031,534

Individual directors and executive compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note and the remuneration report, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Exco Resources Limited held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

2010	Held at 1 July 2009	Granted as compensation	Exercised	Expired	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
M Anderson	2,200,000	-	(1,000,000)	(1,200,000)	-	-	-
A Cooke	750,000	-	-	(750,000)	-	-	-
C Burton	200,000	-	-	(200,000)	-	-	-
B Sullivan	300,000	-	-	(300,000)	-	-	-
P Reeve	-	-	-	-	-	-	-
Executives							
B McLarty	2,500,000	-	(1,500,000)	(1,000,000)	-	-	-
G Laing	1,500,000	-	-	-	1,500,000	500,000	1,000,000
S Konecny	2,300,000	-	-	(800,000)	1,500,000	-	1,500,000
E Byrne	1,500,000	-	-	-	1,500,000	500,000	500,000

2009	Held at 1 July 2008	Granted as compensation	Exercised	Expired	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
M Anderson	2,200,000	-	-	-	2,200,000	600,000	2,200,000
A Cooke	750,000	-	-	-	750,000	375,000	750,000
C Burton	200,000	-	-	-	200,000	100,000	200,000
B Sullivan	300,000	-	-	-	300,000	150,000	300,000
P Reeve	-	-	-	-	-	-	-
Executives							
B McLarty	2,500,000	-	-	-	2,500,000	500,000	2,500,000
G Laing	1,500,000	-	-	-	1,500,000	500,000	500,000
S Konecny	2,300,000	-	-	-	2,300,000	500,000	2,300,000
E Byrne	-	1,500,000	-	-	1,500,000	-	-
M Freeman	400,000	-	-	-	400,000	-	400,000

No options were held by key management person related parties.

Movement in shares

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2010	Held at 1 July 2009	Acquired / (Sold)	Received on exercise of options	Net change other	Held at 30 June 2010
Directors					
M Anderson	750,000	-	1,000,000	-	1,750,000
A Cooke	16,224,988	-	-	-	16,224,988
C Burton*	6,000,667	(1,212,190)	-	-	4,788,477
B Sullivan	50,000	-	-	-	50,000
P Reeve	-	-	-	-	-
Executives					
B McLarty	800,000	-	1,500,000	-	2,300,000
G Laing	81,000	-	-	-	81,000
S Konecny	573,926	-	-	-	573,926
E Byrne	-	-	-	-	-

*Shares sold after the resignation date

2009	Held at 1 July 2008	Acquired / (Sold)	Received on exercise of options	Net change other	Held at 30 June 2009
Directors					
M Anderson	750,000	-	-	-	750,000
A Cooke	16,224,988	-	-	-	16,224,988
C Burton	6,000,667	-	-	-	6,000,667
B Sullivan	50,000	-	-	-	50,000
P Reeve	-	-	-	-	-
Executives					
B McLarty	-	800,000	-	-	800,000
G Laing	-	81,000	-	-	81,000
S Konecny	411,926	162,000	-	-	573,926
E Byrne	-	-	-	-	-
M Freeman	700,000	(700,000)	-	-	-

No shares were granted to key management personnel during the reporting period as compensation in 2009 and 2010. No shares were held by related parties of key management personnel.

Loans to key management personnel and their related parties

There were no loans to key management personnel during the year.

Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. One of those entities, Mitchell River Group Pty Ltd, transacted with the Group in the financial year.

The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms-length basis.

EXCO RESOURCES LIMITED

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Notes to the consolidated financial accounts

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Related party	Transactions value year ended		Balance outstanding as at	
	30-June-10	30-June-09	30-June-10	30-June-09
Mitchell River Group Pty Ltd	463,710	338,404	29,640	713

Mitchell River Group Pty Ltd., a mining consulting firm of which Mr Craig Burton and Mr Alasdair Cooke are directors, received fees of \$463,710 (2009: \$338,404) in respect of the provision of legal services, office rent, secretarial and bookkeeping services, field equipment rental and office cost recovery provided to the Company in the ordinary course of business.

Transactions with Related Parties in the Consolidated Group

The Consolidated Group consists of Exco Resources Limited. (the ultimate Parent Entity in the wholly owned group) and its controlled entities (see Note 27). During the year Exco Resources Limited. entered into loans with those related parties which were advanced on long and short term inter-company accounts.

These loans had the following terms and conditions:

- Loans with related parties are repayable on demand, with repayment not expected to occur within 12 months; and no interest is payable on the loans.
- Transactions with associates and joint ventures are disclosed in notes 12 and 28 respectively.

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

There were no changes in key management personnel subsequent to the reporting date up until and including the date of this report.

31. Share-based payments

During the year ended 30 June 2010 400,000 (2009: 1,500,000) incentive options were issued to employees and consultants and further 6,150,000 options were issued to third parties in settlement of fees. Details of the options granted during the year are disclosed in tables below.

	Fair value		Fair value
	Based on the Binomial option pricing model		Based on the value of services received
	Employee Options	Fox Davies Options*	Barclays Options**
	6-Aug-09	22-Oct-09	11-Sep-09
Number of options	400,000	1,650,000	4,500,000
Grant date	06-Aug-2009	22-Oct-2009	11-Sep-09
Exercise price (cents)	40.0	27.3	28
Expiry date	30-Jun-2010	21-Oct-2012	10-Sep-12
Share price (cents)	25	28	-
The risk-free interest rate	5.07%	5.38%	-
Volatility	125.19%	116.39%	-
Contractual life of options	0.9 yrs	3 yrs	-
Fair value per option (cents)	8.70	19.41	6.00

*The fair value of services received in return for share options granted to Fox Davies is based on the fair value of share options granted, measured using the binomial option-pricing model.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

**The fair value of options issued to Barclays Capital is based on the value of service received as set in the White Dam Financing Agreement.

Vesting conditions	Options 6-Aug-09	Options 11-Sep-09	Options 22-Oct-09
Continuous service - vesting on 4 May 2009	200,000		
Continuous service - vesting on 4 May 2010	200,000		
Vested and exercisable on grant date		4,500,000	1,650,000

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (cents) 2010	Number of options 2010	Weighted average exercise price (cents) 2009	Number of options 2009
Outstanding at 1 July	34.2	14,500,000	34.6	13,000,000
Expired during the year	40.0	(7,900,000)	-	-
Exercised during the year	20.0	(2,500,000)	-	-
Granted during the year	40.0	400,000	40.0	1,500,000
Granted during the year	28.0	4,500,000	-	-
Granted during the year	27.3	1,650,000	-	-
Outstanding at 30 June	35.9	10,650,000	35.2	14,500,000
Exercisable at 30 June	35.1	9,150,000	34.2	12,000,000

The options outstanding at 30 June 2010 have an exercise price in the range of 25 to 40 cents and a weighted average contractual life of 2 years.

Share-based payment expense

	30-June-10 \$	30-June-09 \$
Recognised in profit and loss	78,580	234,218
Recognised in balance sheet as exploration and evaluation expenditure	68,772	334,497
	147,352	568,715

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

32. Segments

The Group has two reportable segments, which include the following:

- a) Development and production. Comprises the White Dam Gold Project Joint Venture in South Australia.
- b) Exploration and evaluation. Includes exploration and evaluation activities in the area of mineral resources.

Information regarding the results of each reportable segment is included below.

<i>Operating segments</i>	Exploration	Production	Corporate	Unallocated/ Eliminations	Total
30 June 2010	\$	\$	\$	\$	\$
External revenues	-	7,022,317	-	-	7,022,317
Inter-segment revenue	-	-	-	-	-
	-	7,022,317	-	-	7,022,317
Interest income	-	142,776	368,798	-	511,574
Interest expense	-	32,055	4	-	32,059
Depreciation expense	-	-	209,143	-	209,143
Reportable segment loss before income tax	(771,219)	(1,588,028)	(2,793,501)	11,452	(5,141,296)
Share of profit of equity method investees	-	-	-	-	-
<i>Other material non-cash items:</i>					-
Amortisation on mine and development properties included in Cost of goods sold	-	1,000,791	-	-	1,000,791
Depreciation on mine and development properties included in Cost of goods sold	-	5,901,189	-	-	5,901,189
Reportable segment assets	52,738,480	15,982,407	10,086,715	-	78,807,602
Reportable segment liabilities	14,449,790	4,143,317	-	-	18,593,107
Investment in associates	-	-	51,617	-	51,617
Capital expenditure	4,879,917	14,758,919	179,791	-	19,818,627

Geographical segments

Exploration and Corporate and the Production segments are both located and managed in Australia, thus operating in a single geographical segment.

Major customers

All the Group's revenues are from two customers of the Production segment, namely the Perth Mint Australia and Barclays Capital PLC.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Notes to the consolidated financial accounts

33. Events subsequent to balance date

Share Placement

On 10 August 2010 the Company announced that it had executed a Subscription Agreement to raise A\$4.9m (before expenses) through the issue of approximately 16.4 million fully paid ordinary shares (5% of the total fully paid ordinary shares currently on issue at 9 August 2010) at 30 cents each to Aus-Ore Investments Pty Ltd, which is an investment vehicle for Sin-Tang Development Pte Ltd of Singapore.

The issue price of the shares represented a 15% premium on the 30 Day VWAP to 4 August 2010.

The parties have agreed to use their best endeavours to reach agreement in the next three months with regard to a proposed strategic investment by the Sin-Tang in the Company's Cloncurry Copper Project in north-west Queensland. Negotiations between the parties for the second stage will encompass both the purchase of an interest and the provision of debt financing for the project.

The Company intends to use the monies raised from the placement to fund exploration and resource development activities at its portfolio of Copper-Gold Projects in north-west Queensland.

Exercise of Options

On 30 August 2010 the Company announced that 1,500,000 employee incentive options at 25 cents had been exercised raising a total of \$375,000 before costs.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Directors' Declaration

1. In the opinion of the Directors of Exco Resources Limited ('the Company'):
 - a) the consolidated financial statements and notes that are contained in paragraphs 1 to 33 and the Remuneration report in the Directors' report, set out on pages 8 to 13 , are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the financial year ended 30 June 2010.
3. The directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors



Michael Anderson
Managing Director
30 September 2010

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Independent Lead Auditor's Report



Independent auditor's report to the members of Exco Resources Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Exco Resources Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Independent Lead Auditor's Report



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Exco Resources Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in grey ink that reads 'KPMG'.

KPMG

A handwritten signature in grey ink that appears to be 'T. Hart'.

Trevor Hart
Partner

Perth

30 September 2010